

OUTLOOK

A Publication of the South Dakota Retirement System

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Thirteen Retirement Systems Considered

SDRS Ranks at Top of Regional Comparisons

Although it's the focus of the most attention, the size of a benefit check doesn't reflect the full value of membership in a retirement system. Other features, such as survivor benefits, disability coverage and measures of protection against inflation add to the basic benefit and significantly increase a system's worth. The exceptional advantages that SDRS members enjoy became evident in a recent study that compared all of the key plan provisions of thirteen midwestern public retirement systems.



The Basic Benefit

The face value of a benefit check is an important provision of any retirement plan. In determining the size of a basic retirement benefit, two features give SDRS members a significant advantage:

- **The timeframe used to calculate a member's final average compensation:** SDRS uses the

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three highest consecutive years' salary out of the last ten years. The average among the regional systems is more than three years, with some systems using as many as five years.

- **Credited service:** SDRS is unusual in crediting a member with a full quarter's service if contributions are received for any period of time worked during that quarter.

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14 SDRS Provisions Superior to Typical Practices

✓ Post-retirement survivor benefit	✓ Pre-retirement survivor benefit
✓ Cost-of-living adjustment	✓ Final average salary basis
✓ Extending benefit increases to retired members	✓ Credited service calculation
✓ Contribution accumulation guarantee after retirement	✓ Alternate formula
✓ Portable retirement option	✓ Early retirement reduction factor
✓ Member vesting	✓ Early retirement benefit for vested members
✓ Disability benefits	✓ Indexing of benefits for vested members



Qualifying for Retirement

Many systems have more stringent qualifications for retiring than does SDRS. Of the systems that have vesting periods, SDRS' requirement of three years to vest matches the shortest period, with six systems requiring from four to 10 years.

To qualify for early retirement, SDRS' requirements for age and years of service meet the regional average. However, SDRS makes a smaller reduction in early retirement benefits (three percent per year) than do most other systems (up to 7.2 percent).



Advantages Continue in Retirement

Among the plans compared in the study, SDRS is remarkable for a number of unusual provisions it offers to retiring members:

- There is no cap to SDRS benefits based on percentage of final average compensation.
- SDRS is the only system of the 13 that guarantees that the monthly retirement benefits paid to a member (or member's spouse) will equal or exceed the member's combined employee and employer contributions plus interest.

- SDRS is one of two systems that extend benefit increases to retirees. Since 1989, improvements in the formula multiplier have applied to both active and retired members.
- SDRS and only one other plan continue to credit interest to a member's contributions after retirement, steadily increasing the minimum amount a member (or member's spouse) is guaranteed to receive.
- SDRS is the only system that provides an automatic annual cost-of-living adjustment, currently 3.1 per cent compounded. The other systems offer less generous adjustments. Most are tied to the consumer price index and have a maximum cap, while others only grant a COLA on an ad-hoc basis.



Survivor and Disability Benefits

In providing survivor and disability benefits, SDRS again ranks well above the typical regional public retirement system. Only SDRS and one other system in the study offer, as part of their basic plan and without an additional charge, survivor benefits to spouses of members who die after retirement.

Retirement benefits for survivors of active members are also unusually generous, based on the deceased member's projected income and credited service at normal retirement age, rather than

on actual income and service at the time of death.

Typically systems in the study tie disability benefits to the amount of service members have accrued in their retirement plan — the shorter the time employed, the smaller the benefit. In contrast, SDRS provides disabled members a fixed percentage of their pay, with fixed supplementary amounts added for dependent children, regardless of the credited service earned in the system. This feature is especially valuable to younger members.



Payment Options

If vested members leave employment before retirement age and do not withdraw their accumulated contributions, the value of their accrued benefit continues to grow by 3.1 percent a year. Only three other systems provide annual increases, and none matches SDRS' rate.

Only two other regional systems refund any portion of employer contributions, and neither are as generous as SDRS. For members who leave employment before becoming vested, or who choose a lump-sum payment in lieu of lifetime benefits, SDRS refunds all of their employee contributions and, depending on the length of time they have been a member, all or a portion of their employers' contributions. OUTLOOK

New Laws Change SDRS Provisions

Effective July 1, 2004, nine new pieces of legislation alter various SDRS provisions, such as the cost of

participating in the Optional Spouse Benefit, retire/rehire conditions and caps on increases in final average compensation.

The following eight changes directly affect SDRS members:

1 Final average compensation

- Termination pay is no longer considered as compensation
- Compensation can only increase in the last quarter of employment to a maximum of 115 percent of the highest prior quarter.
- The average pay in the last four quarters of employment is limited to 110 percent of the highest prior quarter.
- On July 1, 2005, both caps will be reduced to 105 percent.

2 Special Pay Plan

When combined with a redefinition of final average compensation, this new plan may increase the amount of termination pay that Class A members keep by as much as 14 percent.

3 Optional Spouse Benefits

Rates increase for all optional spouse participants by 4 tenths of 1 percent, to 1.2 percent of compensation. The compensation basis for calculating benefits changes from a member's highest single year's pay to a member's final average compensation.

4 Interest on Accumulated Contributions

Interest on accumulated contributions, which typically only applies to members or beneficiaries who refund out the system, can be no greater than 90 percent of the interest rate on 91-day US Treasury bills from the preceding calendar year. That 90 percent cannot be more than the amount the system expects to earn on its own investments, which today is 8 percent annually.

5 Purchased Credited Service

For contracts generated after June 30, 2004, purchase rates vary according to a member's age.

6 Retire/Rehire (for members rehired under the new legislation)

- **COLA:** members who retire under normal or special early retirement and are rehired by an SDRS employer will not receive the annual cost-of-living adjustment (COLA) during the period of re-employment.
- **Add-on benefit:** When a member retires for the second time, the add-on retirement benefit will be based on the period of re-employment only.
- **SDRS enrollment:** SDRS will enroll retired/rehired employees as new members, which means they must work three more years (be vested) to be eligible for an additional retirement benefit.

7 Common Basis for Calculating Benefits

Disability and survivor benefits will use final average compensation instead of the highest one-year's pay in the last three years as the basis for calculating benefits. This change brings uniformity to the calculation of all SDRS benefits.

8 Eligibility Requirements

Bases eligibility for vesting and disability benefits exclusively on contributory service.

For a more complete discussion of retirement legislation passed in 2004, refer to Outlook 1, 2004, or go to the SDRS Web site, www.state.sd.us/sdrs.

For more information about the South Dakota Retirement System,
check out the Web: <http://www.state.sd.us/sdrs/>

Elections Seat Three Members on Board of Trustees

As a result of June elections, two new trustees and one incumbent will serve the next four-year term on the SDRS board.



Darwin Longieliere

Board of Regents employees elected Darwin Longieliere as their new representative. The finance officer for the College of

Agriculture and Biological Sciences at South Dakota State University, Mr. Longieliere takes the seat held by Dr. Lowell Slyter, who has retired. Twenty-six percent of



Eric H. Stroeder

eligible voters participated, casting 750 ballots.

Eric H. Stroeder, a transportation engineering supervisor for the

Department of Transportation in Mobridge, was unopposed in his bid to represent state employees, taking the seat vacated by Don Zeller.

Also running unopposed, Wesley Tschetter will continue to represent school board members. Mr. Tschetter is the assistant vice president for finance and business at South Dakota State University. **OUTLOOK**



Board Notes

The following is a summary of major issues that came before the SDRS Board of Trustees at its meetings on April 15 and 16 and June 9 and 10, 2004.

Board meeting April 15 and 16

Actuarial Assumptions

Koren Holden, Mellon Human Resources, reported on the review of actuarial assumptions undertaken in December, 2003.

The board voted not to use the short-term/long-term investment return assumption approach initially proposed, adopted Mellon's recommendations on demographic assumptions, and requested Mellon to prepare an estimate of the financial impact of changing economic assumptions.

Current Financial Status

Steve Myers, South Dakota State Investment Officer, reported on current investments and the financial markets.

Paul Schrader, Mellon Human Resources, reported on the funded status of SDRS as of June 30, 2003, and projected the system's actuarial and market values and cushion for fiscal year 2004.

Ms. Holden presented the results of her comparative study of SDRS and other major regional retirement systems.

2004 Legislation

Rob Wylie, SDRS' administrator,

reported that all nine of the board's recommended measures were passed by the 2004 Legislature. In accordance with the new legislation, the board adopted the actuarial rates for purchase costs and set the effective rate of interest for fiscal year 2005 at 0.93 percent.

Membership

The board approved Class B Public Safety membership for jailers from Meade and Clay Counties.

Present: Elmer Brinkman, Brian Berglin, Carol Burch, Tracy Dahl-Webb, Bryan Gortmaker, James Hansen, Royce Hueners, Louise Loban, K.J. McDonald, Dave Merrill, Pam Roberts, Dr. Lowell Slyter, Wes Tschetter, Don Zeller, Judge Steve Zinter, Steve Myers, Ex Officio
Absent: Sandy Zinter

June 9, regular board meeting and June 10, joint meeting with the Retirement Laws Committee

Election results

Dawn Smith, SDRS, presented results of June balloting that elected Darwin Longieliere, Eric H. Stroeder and Wes Tschetter to the Board of Trustees for the next four-year term.

Financial Status

Steve Myers, South Dakota Investment Council, reported an investment return of 14.9 percent for the year to date, but

cautioned that the year-end return on June 30, 2004, could vary considerably.

Paul Schrader and Koren Holden of Mellon Human Resources reviewed the projected status of the system's reserve and cushion as of June, 2004.

Jane Roberts, SDRS, presented the budget request for fiscal year 2006.

Review of Issues

Schrader and Holden presented cost and funded status projections under various economic assumptions, as requested by the board at the April, 2004, meeting.

Rob Wylie was selected as SDRS' representative on the South Dakota Investment Council.

With the Retirement Laws Committee in attendance, Wade Hubbard, SDRS, outlined items that could require legislative action or rule amendments. They included extending time to purchase credited service for members called to active military duty and procedures for electing trustees and filling vacancies on the board.

Present: Elmer Brinkman, Brian Berglin, Carol Burch, Tracy Dahl-Webb, Bryan Gortmaker, James Hansen, Royce Hueners, Louise Loban, K.J. McDonald, Dave Merrill, Pam Roberts, Dr. Lowell Slyter, Wes Tschetter, Don Zeller, Sandy Zinter, Judge Steve Zinter, Steve Myers, Ex Officio

SDRS STATE-WIDE INDIVIDUAL COUNSELING SCHEDULE*

SCHEDULE DATE	CITY	COUNTY	LOCATION	ADDRESS	DEADLINE TO SCHEDULE**
September 7, 2004	Redfield	Spink	Senior Center	728 Main St.	September 2
September 14, 2004	Eagle Butte	Dewey, Ziebach	Landmark Hall	S. Main	September 9
September 21, 2004	Clear Lake	Deuel	Lakewood Inn	920 3rd Ave S.	September 16
September 28, 2004	Salem	McCook	REA Room	236 N. Main	September 23
October 5, 2004	Parker	Turner	Community Room	700 S. Main	September 30
October 12, 2004	Howard	Miner	Community Center	Firehall	October 7

* See the SDRS Web site for a more complete schedule. ** Individual retirement counseling sessions must be scheduled before noon on this date.

OUTLOOK *Interview ... continued from page 6*

OUTLOOK: Even 70 percent of income is a lot of money. Where does it come from?

Tschetter: A member's retirement income comes from three sources — SDRS, Social Security and personal savings. Members with 30 years of credited service and salaries of roughly \$75,000 or less can count on meeting the 70 to 85 percent goal from SDRS and Social Security alone, even if they retire at age 62. Fortunately, both SDRS and Social Security provide annual cost-of-living increases. These members can use personal savings to cover unexpected expenses or pay for extras like extended travel. The highest paid employees, however, will have to use some of their personal savings to reach the 70 to 85 percent replacement goal.

OUTLOOK: What about members who don't have a full career in SDRS, something less than 30 years?

Tschetter: The less members receive from SDRS, the more they'll have to depend on their personal savings or other sources of income. Using the goal of 70 to 85 percent replacement income is helpful in this instance also. For example, if SDRS and Social Security replace 60 percent of a member's current salary, between 10 and 25 percent

will have to come from personal savings or some other source, such as income from a part-time job or retirement benefits from other employment. This means a member earning \$40,000 a year would need an additional \$4,000 to \$10,000 in annual income. That amount would have to increase each year to compensate for inflation.

"A member's retirement income comes from three sources — SDRS, Social Security and personal savings."


OUTLOOK: Social Security is in trouble and there are discussions about reducing benefits. How do members plan for a possible change in Social Security?

Tschetter: A number of proposals have been made to ease the financial problems with Social Security, including increasing the retirement age, lowering the cost-of-living benefit, and changing the calculation basis for benefits. At this point, there's no consensus on an approach. The board is monitoring the discussions and will report to the membership as the debate becomes more defined. In the meantime, members should recognize that there could be changes in Social Security, but should plan based on the current laws.

OUTLOOK: How about practical planning issues? Are there tools that members can use to estimate the payments they can expect from SDRS and Social Security?

Tschetter: SDRS has two excellent planning tools. The first is the personal benefits statement that every member receives each year. It summarizes all the information in a member's file and estimates SDRS benefits for up to three ages—usually 55, 62 and 65. The second is the benefit calculator on the SDRS web site. The calculator allows members to vary their retirement date or their final average compensation and receive an instant estimate of their monthly benefit.

Social Security also sends out individualized annual statements that project its benefit payments at ages 62, full retirement and age 70.

By adding their projected SDRS and Social Security benefit amounts together and comparing the total with 70 to 85 percent of their current salary, members have a solid basis for financial planning. It's useful for every member to make this simple calculation every year, and for anyone within 15 years of retirement, it's a must. 



South Dakota Retirement System
P.O. Box 1098
Pierre, South Dakota 57501

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"There's no question that members' first concern is whether they'll have enough income in retirement."



Wes Tschetter

OUTLOOK *Interview*

Mr. Tschetter has represented school boards on the SDRS Board of Trustees since 2001. He is the assistant vice president for finance and business at South Dakota State University.

In this Outlook interview, Wes Tschetter discusses the amount of income you'll need in retirement and the sources it will come from.

OUTLOOK: *What's the biggest concern of members who are thinking about retiring?*

Tschetter: There's no question that members' first concern is whether they'll have enough income in retirement. No matter if their salaries are \$15,000 or \$80,000, they all worry about that. They want to know they'll have what they need to maintain their present standard of living.

OUTLOOK: *And how do they figure out how much they'll need?*

Tschetter: A starting point is to think in terms of a percentage of current annual salary. Most finan-

cial planners say retirees need between 70 and 85 percent of their working income when they retire. That's to keep the same standard of living they had when they were working. They'll also need periodic increases in their retirement income to blunt the effect of inflation.

"A starting point is to think in terms of a percentage of current annual salary."

OUTLOOK: *So a member with a \$40,000 salary would require between \$28,000 and \$34,000 in post-retirement income adjusted for inflation?*

Tschetter: That's a good range to begin with, but members can refine those numbers considerably. For example, if you're paying for a home mortgage, college education, unusual medical bills or other large debts, those percentages might be higher.

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